

Message Text

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ACTION EA-06

INFO OCT-01 SS-14 ISO-00 NSC-05 PM-03 SP-02 INR-05
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DOE-15 SOE-02 /064 W
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C O N F I D E N T I A L SECTION 1 OF 6 CANBERRA 4297

LIMDIS

PARIS FOR USOECD; BRUSSELS FOR USEC; GENEVA FOR MTN

E.O. 11652: GDS
TAGS: PEPR, EGEN, OECD, MTN, AS
SUBJECT: ECONOMIC BRIEFING PAPER FOR PRIME MINISTER FRASER'S
TRIP

1. SUMMARY: DFA HAS PROVIDED TO US, ON AN INFORMAL BASIS FOR
BACKGROUND USE, THE BRIEFING PAPERS ON THE GLOBAL ECONOMY
WHICH WERE DRAFTED AT PRIME MINISTER FRASER'S INSTRUCTIONS TO
REFLECT HIS VIEWS. THEY WERE APPROVED BY THE AUSTRALIAN CABINET
FOR USE BY THE PM DURING HIS CURRENT VISIT TO THE UNITED STATES,
LONDON, BONN, AND OTHER POSSIBLE PORTS OF CALL. THEY CONTAIN
THE SYNTHESIS OF FRASER'S THINKING ABOUT THE CONTEMPORARY
WORLD ECONOMIC SITUATION AND WHAT NEEDS TO BE DONE TO GET THE
WORLD ECONOMY MOVING AGAIN. WE ASSUME FOREIGN MINISTER PEACOCK
WILL BE TAKING THE SAME LINE DURING THE CURRENT ANZUS COUNCIL
MEETINGS IN WASHINGTON. END SUMMARY

2. IN THE "SYNTHESIS" OF THE WORLD ECONOMIC SITUATION
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WHICH WAS DEAWN UP FOR PM FRASER'S CURRENT WORLD VISIT
IS CONTAINED THE ESSENCE OF HIS THINKING ON WHAT NEEDS TO
BE DONE TO GET THE GLOBAL ECONOMY MOVING AGAIN. THE THRUST
OF HIS ARGUMENT IS THAT THE TIME FOR "DISCUSSION" ABOUT
WHETHER THERE SHOULD BE A "NEW INTERNATIONAL ECONOMIC ORDER"
IS PAST; THE QUESTION TO BE FOCUSSED UPON NOW IS WHAT TYPE
OF INTERNATIONAL ECONOMIC ORDER SHOULD EMERGE AND HOW TO

BRING IT ABOUT. IN FRASER'S VIEW, NATIONS MUST NOW BEGIN TALKING WITHOUT PRECONCEPTIONS, AND WITHOUT IDEOLOGICAL CANT, ABOUT WHAT A NEW ECONOMIC ORDER SHOULD LOOK LIKE. THE PRESENT AGENDA IS TOO LONG. IT'S TIME TO GET OUR TEETH INTO THE SIX OR SEVEN SUBJECTS WHICH MOST LEND THEMSELVES TO RESOLUTION IN ORDER TO COME TO GRIPS WITH THE PROBLEMS CAUSED BY THE DOLDRUMS THE WORLD ECONOMY IS IN.

3. WITH RESPECT TO THE GLOBAL ECONOMY, FRASER'S VIEW IS THAT:

- THE OECD ECONOMIES ARE EXPERIENCING SLUGGISH GROWTH WHICH MAY NOT EVEN REACH 4 PERCENT IN 1978;

- EVEN THIS MARGINAL IMPROVEMENT WILL HAVE BEEN LARGELY UNDERPINNED BY STRONGER GROWTH IN THE US AND JAPAN THAN IN THE OTHER MAJOR TRADING ECONOMIES;

- BUT EVEN SO. IT WILL BE INSUFFICIENT TO REDUCE UNEMPLOYMENT BY VERY MUCH EXCEPT IN THE US.

- FORWARD MOVEMENT IN THE WORLD ECONOMIC RECOVERY IS FRAGILE.

- THERE ARE FUNDAMENTAL IMBALANCES UNDERLYING UNSATISFACTORY GROWTH.

- THERE HAVE BEEN SEVERE SHOCKS TO THE WORLD ECONOMY FROM HIGH INFLATION, HIGH WAGE DEMANDS, HIGHER OIL PRICE

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RISES, AND BY GOVERNMENTS NOT EXERCISING RESTRAINT IN SPENDING.

- IT MUST BE RECOGNIZED THAT THE DEVELOPING COUNTRIES ARE AN INTEGRAL PART OF THE GLOBAL ECONOMY, AND THAT THEY ACCOUNT FOR AN IMPORTANT, ALBEIT SMALL, ROLE IN THE DEVELOPMENT OF GROWTH TRENDS.

- INCREASED PROTECTIONISM AMONG DEVELOPED COUNTRIES PUTS AT RISK THE RESUMPTION OF WORLD ECONOMIC GROWTH AND JEOPARDIZES GAINS MADE IN RECENT YEARS BY DEVELOPING COUNTRIES.

- PROSPECTS FOR ECONOMIC RECOVERY WOULD BE GREATLY ENHANCED BY REDUCING BARRIERS TO TRADE.

4. WHAT IS NEEDED, IN FRASER'S VIEW, IS AGREEMENT AMONG DEVELOPED COUNTRIES ON PUTTING THEIR OWN HOUSES IN ORDER. THERE IS A NEED TO EXPAND MULTILATERAL ECONOMIC COOPERATION, AND MEETINGS SUCH AS THE BONN SUMMIT SHOULD AIM AT A BETTER UNDERSTANDING OF THE REAL CONSTRAINTS TO FASTER GROWTH IN THE MAJOR ECONOMIES. NATIONAL ECONOMIC POLICIES SUCH AS "BENIGN NEGLECT" IN THE US FOSTER THE TRANSMISSION OF ECONOMIC PROBLEMS FROM ONE COUNTRY TO THE NEXT. THERE IS, ABOVE ALL, THE PRE-

EMINENT NEED TO REDUCE THE BARRIERS TO INTERNATIONAL TRADE
AND TO ENSURE THE FULL PARTICIPATION OF DEVELOPING COUNTRIES
IN GLOBAL ECONOMIC EXPANSION.

5. GOLLOEING IS FULL TEXT OF PM'S "ECONOMIC SYATHESIS":

BEGIN TEXT:

THE GLOBAL ECONOMY

1. OECD COUNTRIES

OECD ECONOMIES ARE EXPERIENCING SLUGGISH GROWTH

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.- REAL GROWTH MAY APPROACH 4 PER CENT IN 1978

. PERHAPS WITH SOME ACCELERATION THROUGH THE

. YEAR LARGELY UNDERPINNED BY STRONGER GROWTH

. IN US AND JAPAN

.- INSUFFICIENT TO REDUCE UNEMPLOYMENT SIGNIFICANTLY (EXCEPT IN US)

.- AVERAGE INFLATION IS EDGING DOWN TO 7 PER CENT (BUT STILL
DISPARITIES BETWEEN COUNTRIES AND, IN US PRICES ARE ACCELERATING)

FORWARD MOMENTUM OF WORLD ECZGDPNC RECOVERY IS FRAGILE

.- SLOW AND UNEVEN RECOVERY OVER LAST THREE YEARS

.- SOME WAY FROM AN ENVIRONMENT OF SUSTAINED GROWTH

.- CURRENCY INSTABILITY HAS REFLECTED AND PROMOTED UNCERTAINTY

.- GROWTH HELD BACK BY TRENDS IN HIGH INFLATION COUNTRIES

FUNDAMENTAL IMBALANCES UNDERLIE UNSATISFACTORY GROWTH

.- CUMULATION OF EFFECTS OF EXPANSIONARY (FINETUNING) POLICIES
OVER A LONG PERIOD (1960'S).

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C O N F I D E N T I A L SECTION 2 OF 6 CANBERRA 4297

LIMDIS

PARIS FOR USOECD; BRUSSELS FOR USEC; GENEVA FOR MTN

. - ADDED TO BY UNFORTUNATE COINCIDENCES TO
CIRCUMSTANCES OF EARLY 1970'S (BAD HARVESTS)
SYNCHRONISED BOOM, EXCESSIVE LIQUIDITY).
SEVERE SHOCKS TO ECONOMIC SYSTEMS.
. - VERY HIGH INFLATION
. - HIGH AND PERSISTENT WAGE DEMANDS
. - OIL PRICE RISES
. - POSTPONEMENT OF NECESSARY RESTRAINT BY MANY
GOVERNMENTS.
SLOW PROGRESS IN IMPROVING CONFIDENCE AND REMOVING
FUNDAMENTAL IMBALANCES
. - INVESTORS REQUIRE HIGHER RISK MARGINS (PARTICU-
LARLY LONG TERM PROJECTS)
. - CONSUMERS HESITANT TO SPEND (SAVINGS RATIOS
DECLINING SLOWLY, NOW STICKY)
. - BALANCE OF PAYMENTS IMBALANCES PERSIST
CONSEQUENCES
. - UNIVERSAL CONCERN AND SEARCH FOR PRESCRIPTIONS
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. - "LOCOMOTIVE" THEORY ABANDONED
. - BUT "CONVOY" THEORY NOW UNDER DISCUSSION
(IMF, OECD MEETINGS)
. - DANGER OF RHETORIC OF OBJECTIVES AS
SUBSTITUTE FOR DIFFICULT DECISIONS
. - TREND TO PROTECTIONISM

. QUESTION OF EFFECTS ON DEVELOPING COUNTRIES.

2. DEVELOPING COUNTRIES

- IT MUST BE RECOGNISED THAT DEVELOPING COUNTRIES ARE AN INTEGRAL PART OF THE GLOBAL ECONOMY.
- SUSTAINED RECOVERY IN THE DEVELOPED WORLD WOULD DO MOST TO HELP DEVELOPING COUNTRY PROSPECTS.
- AND ALLOW DEVELOPING COUNTRY EXPECTATIONS TO HAVE A SOUNDER BASE
- THEY ARE, BY AND LARGE, CRUCIALLY DEPENDENT ON GLOBAL ECONOMIC TRENDS.
- WE SHOULD NOT FORGET THEY ACCOUNT FOR A SMALL BUT IMPORTANT PART OF TOTAL ACTIVITY THEMSELVES
- LESS THAN ONE-FIFTH OF WORLD GNP
- BUT WITHIN THE NON-OIL (ABOUT 130 COUNTRIES) THE BULK OF GROWTH AND WEALTH IS NOT EVENLY SPREAD
- A FEW UPPER-INCOME COUNTRIES ARE BECOMING INCREASINGLY IMPORTANT
- AS A WHOLE, LDCS HAVE GENERALLY FARED BETTER IN 1970S IN TERMS OF ECONOMIC GROWTH:-
- IN 1977, OECD COUNTRIES REAL GDP UP BY 3.5 PER CENT, LDCS UP BY 4.7 PER CENT.
- BUT INFLATION FAR WORSE
- IN 1977, OECD - AVERAGE 7 PER CENT, LDCS - 32 PER CENT.

. THERE ARE CLEARLY WIDE DIVERGENCES IN THESE ECONOMIC PERFORMANCES

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. THERE HAVE BEEN SOME NOTABLE "SUCCESS STORIES" (PARTICULARLY IN ASIA)

. THERE SHOULD CONTINUE AND THERE WILL BE OTHERS

. ESPECIALLY IN THOSE LDCS WHICH PURSUE SOUND DOMESTIC POLICIES

. THE INCREASING PROTECTIONISM OF DEVELOPED COUNTRIES IS PUTTING THIS UNDERLYING GROWTH AT RISK

. THE GAINS OF RECENT YEARS BY DEVELOPING COUNTRIES COULD BE ERODED AND FUTURE CONFIDENCE CHECKED

. PROSPECTS COULD BE ENHANCED BY DEVELOPING COUNTRIES REDUCING THEIR OWN BARRIERS TO TRADE

3. PROSPECTS

IN SHORT, THE PROSPECTIVE OUTLOOK IS FOR CONTINUED MODERATE GROWTH WITH PERSISTENCE OF UNACCEPTABLE LEVELS OF INFLATION AND UNEMPLOYMENT.

. APPLIES TO MOST DEVELOPED AND DEVELOPING COUNTRIES

. PROSPECTS ARE DIMINISHED BECAUSE COUNTRIES WON'T TACKLE THE BASIC PROBLEMS IN A REALISTIC MANNER.

WHAT IS NEEDED

. AGREEMENT ON NEED FOR CONTINUED RIGOUR BY THE

DEVELOPED COUNTRIES IN THE MANAGEMENT OF THEIR
ECONOMIES
. EACH COUNTRY SHOULD PUT ITS OWN HOUSE IN ORDER
. SOME COUNTRIES HAVE NOT TAKEN, OR HAVE
SLIPPED BACK FROM EFFECTIVE ANTI-INFLATION POLICIES
. CURRENCY INSTABILITIES REFLECT ESSENTIALLY
DIFFERING QUALITIES OF DOMESTIC ECONOMIC POLICIES
. NEED TO RENEW AND EXPAND MULTILATERAL ECONOMIC
COOPERATION

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DOE-15 SOE-02 /064 W
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R 020826Z JUN 78
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LIMDIS

PARIS FOR USOECD; BRUSSELS FOR USEC; GENEVA FOR MTN

. CONSISTET WITH OUR OBLIGATION TO ASSIST THOSE IN NEED
. THE "WEALTHIER" LDCS CAN HAVE AN IMPORTANT AND COMPLEMENTARY
ROLE TO PLAY.
. BY EXAMPLE AND ACTIONS, THEY CAN ALSO CONTRIBUTE TO THE
DEVELOPMENT OF THEIR REGIONS
. PROVIDED THEY ARE GIVEN A CHANCE
. AND PROVIDED THEY PURSUE SOUND DOMESTIC POLICIES
. THEY MUST NOT BE BARRED FROM THIS ROLE BY INCREASING INSULARITY
OF OECD NATIONS.

. THEIR SPECIAL ROLE AMONGST LDCS MUST BE RECOGNISED AND THEY
MUST BE DRAWN INTO GREATER MULTILATERAL CONSIDERATION OF GLOBAL
DECISIONS.

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. THE OLD "DEVELOPED/DEVELOPING DIVISION" MUST BE RE-EXAMINED

. MORE CO-ORDINATION THROUGH RECOGNITION OF MUTUAL CONCERNS
AND RESPONSIBILITIES.

. HOWEVER, DEVELOPED COUNTRIES MUST NOT AVOID RESPONSIBILITIES
VIS A VIS DEVELOPING COUNTRIES

. INTRACTABLE POVERTY, DISEASE AND SUFFERING

. THEY WILL ONLY REAP MARGINAL BENEFIT FROM GREATER GLOBAL
ECONOMIC ACTIVITY.

NORTH/SOUTH DIALOGUE

. THE NORTH/SOUTH DIALOGUE HAS THREE MAIN OBJECTIVES

. INCREASE THE PARTICIPATION BY DEVELOPING COUNTRIES IN THE
GLOBAL ECONOMY

. IMPROVE DEVELOPING COUNTRIES' STANDARD OF LIVING A

. ATTACK THE PROBLEM OF POVERTY IN THE DEVELOPING COUNTRIES.

. THE CURRENT DIALOGUE STARTED IN 1964 (UNCTAD I, GENEVA)
AND LED TO THE UNITED NATIONS DECLARATION AND PROGRAM OF ACTION
IN 1974. THIS CAN NOW BE SEEN TO BE THE DEFINITIONAL PHASE OF
THE DIALOGUE.

. THERE IS NOW LITTLE IF ANY DOUBT ABOUT THE IMPORTANCE OF
THE DIALOGUE AND ITS OBJECTIVES

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. THE NORTH/SOUTH AGENDA IS MADE UP OF A LIST OF PROPOSALS FOR
ACTION DESIGNED TO MEET THE THREE BROAD OBJECTIVES OF PARTICIP-
ATION, STANDARDS OF LIVING AND ATTACK ON POVERTY

. THIS AGENDA IS NOW DESCRIBED AS THE PROPOSALS FOR THE

ESTABLISHMENT OF A NEW INTERNATIONAL ECONOMIC ORDER.

1. THE PRESENT PHASE IS THEREFORE A PERIOD OF NEGOTIATION OF THOSE PROPOSALS AND A PERIOD FOR THE ACHIEVEMENT OF CONSTRUCTIVE CHANGE - IN THREE MAIN AREAS.

. INTERACTION BETWEEN THE VARIOUS GROUPS OF COUNTRIES WHICH MAKE UP THE NORTH AND THE SOUTH

. THE STRUCTURE OF THE NORTH/SOUTH DIALOGUE ITSELF TO OVERCOME THE CURRENT RIGIDITIES WHICH HAVE LED TO INERTIA

. TO ATTACK THE ISSUES WHICH ARE BASIC IN THE DIALOGUE AND TO THE RELATIVE POVERTY OF SO MUCH OF THE DEVELOPING WORLD.

. A KEY REASON FOR SLOW PROGRESS IN THE NORTH/SOUTH DIALOGUE HAS BEEN THE FALSE ASSUMPTION OF HOMOGENEITY OF THE NORTH AND SOUTH GROUPS

. EACH GROUP INCLUDES COUNTRIES AT DIFFERENT STAGES OF DEVELOPMENT

. THE GROUP APPROACH HAS LED GENERALLY TO RIGIDITY IN NEGOTIATING POSITIONS AND A PREFERENCE FOR IDEOLOGICAL AND POLITICAL STATEMENT OVER CONCRETE PROGRESS

. A BREAKTHROUGH IN THE NORTH/SOUTH DIALOGUE WILL REQUIRE RECOGNITION OF THE HETEROGENEITY OF THE GROUPS FOLLOWED BY A WILLINGNESS TO SEE PRACTICAL SOLUTIONS IN NEGOTIATIONS IRRESPECTIVE OF STATED GROUP POLITICAL ATTITUDES TOWARDS THE DIALOGUE AS SUCH.

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. IF THE MAIN AIM IS TO INCREASE THE ROLE IN THE GLOBAL ECONOMY OF THE MAJORITY OF DEVELOPING COUNTRIES THERE ARE SIX KEY AREAS IN WHICH PROGRESS MUST BE SOUGHT IN THE NORTH/SOUTH DIALOGUE

. INDUSTRIALISATION

. DEVELOPING COUNTRIES REQUIRE THE TRANSFER TO THEM OF APPROPRIATE TECHNOLOGY. A GREATER EFFORT BY DEVELOPED COUNTRIES IS REQUIRED BOTH IN R & D OF SUCH TECHNOLOGY AND IN MAKING IT AVAILABLE

. AN INCREASE IN THE USE OF EFFECTIVE AND APPROPRIATE REGIONAL INDUSTRIAL CO-OPERATION PROGRAMS SPECIFICALLY TAILORED TO THE NEEDS AND ASPIRATIONS OF THE REGIONS

. DEVELOPING COUNTRIES SHOULD BE ENCOURAGED TO WORK OUT FOR THEMSELVES THE TECHNOLOGY THEY REQUIRE, TAKING PARTICULAR ACCOUNT OF THEIR RAW MATERIALS, AND THE MECHANISMS FOR THE TRANSFER

OF APPROPRIATE TECHNOLOGY TO THEM

. GREATER INVESTMENT BOTH PUBLIC AND PRIVATE IN DEVELOPING
COUNTRY INDUSTRY AS A MEANS OF EXPANDING THEIR INDUSTRIAL BASE

. SUCH INDUSTRIAL DEVELOPMENT ACTION MUST BE BACKED
UP BY ACTION PROGRESSIVELY TO IMPROVE THE ACCESS OF DEVELOPING
COUNTRIES TO MARKETS IN WHICH THE PRODUCTS OF THEIR INDUSTRIES
CAN BE SOLD.

. TRANSFER OF RESOURCES

. MOST DONOR COUNTRIES ARE AT PRESENT COMMITTED TO

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DOE-15 SOE-02 /064 W
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R 020826Z JUN 78
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LIMDIS

PARIS FOR USOECD; BRUSSELS FOR USEC; GENEVA FOR MTN

. MEETINGS (EG BONN SUMMIT) SHOULD AIM AT
BETTER APPRECIATION OF REAL CONSTRAINTS ON
FASTER FROWTH IN MAJOR COUNTRIES.
. INCREASE UNDERSTANDING OF DANGER OF TRANS-
MISSION OF ECONOMIC PROBLEMS (US BENIGN NEGLECT)
. ACTION TO REDUCE BARRIERS TO INTERNATIONAL TRADE
. REDUCTION OF UNCERTAINTIES INHERENT IN TRADE IN
COMMODITIES AND RAW MATERIALS
. NEED TO ENSURE FULL PARTICIPATION OF DEVELOPING
COUNTRIES IN GLOBAL ECONOMIC ACTIVITY

. TO ASSIST IN MAINTAINING MOMENTUM IN THE SHORT-TERM
. TO CONTRIBUTE TO ACCELERATED OVERALL GROWTH IN THE LONG-TERM
. TO MAINTAIN INTERNATIONAL POLITICAL STABILITY
GIVING 0.7 PER CENT OF GNP PER ANNUM IN ODA.
THIS TARGET HAS SO FAR BEEN MET ONLY BY NORWAY, NETHERLANDS AND SWEDEN. THE AMOUNT OF AID MUST
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BE INCREASED AND ITS TERMS SOFTENED.
. AUSTRALIA INTENDS TO CONTINUE MOVING POSITIVELY TOWARDS INCREASING THE TOTAL VOLUME OF ITS AID IN REAL TERMS AS WELL AS IMPROVING ITS QUALITY AND EFFECTIVENESS.
. ACTION SHOULD ALSO BE TAKEN TO ENCOURAGE AN INCREASE IN PRIVATE CAPITAL FLOWS FROM DEVELOPED TO DEVELOPING COUNTRIES. GOVERNMENT SUPPORT, FOR EXAMPLE THROUGH INVESTMENT INSURANCE, MIGHT ENCOURAGE THIS ACTION
. THE OECD IS CONSIDERING PROPOSALS FOR STEPPING UP CONSIDERABLY INVESTMENT IN DEVELOPING COUNTRIES.
. TRADE
. THE DEVELOPED COUNTRY PARTICIPANTS IN MULTILATERAL TRADE NEGOTIATIONS MUST REAFFIRM IN A PRACTICAL WAY THEIR COMMITMENT IN THE TOKYO DECLARATION TO MEET THE NEEDS OF DEVELOPING COUNTRIES
. THERE MUST BE A COMPREHENSIVE SOLUTION TO THE PROBLEMS OF COMMODITY TRADE WITH THE AIM OF STABILISING TRADE AND INCREASING RETURNS TO COMMODITY EXPORTERS.. INTERNATIONAL INSTITUTIONS
. THE IMF HAS A CENTRAL ROLE TO PLAY IN ENSURING CONDITIONS CONDUCIVE TO SUSTAINED DEVELOPMENT
. ADEQUATE INTERNATIONAL LIQUIDITY WITHOUT A RESURGENCE OF INFLATIONARY PRESSURES (QUOTA INCREASE NOW UNDER CONSIDERATION)
. ESTABLISHING ROLE FOR SDRS TAKING INTO ACCOUNT NEEDS OF ALL COUNTRIES
. MAINTENANCE OF ADEQUATE BALANCE OF PAYMENTS SUPPORT FACILITIES FOR ALL COUNTRIES
. FURTHER EXAMINATION OF CFF MAY BE REQUIRED TO INCREASE ITS EFFECTIVENESS FOR LDCS
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. THERE IS SCOPE - APPROXIMATELY 5 PERCENT IN REAL TERMS -

FOR INCREASED LENDING BY WORLD BANK

. THIS SHOULD NOT JEOPARDISE THE SMOOTH FUNCTIONING
OF THE ORGANIZATION
. COULD LEAD TO LONGER TERM INCREASES IN AID DISBURSEMENT
. BUILT UPON THE SUCCESSFUL OPERATION IN RECENT YEARS
PARTICULARLY UNDER MCNAMARA' DYNAMIC POLICIES
. FOOD SECURITY
. IMBALANCES BETWEEN FOOD DEMAND AND AVAILABILITY
REMAIN A CRITICAL PROBLEM IN MANY DEVELOPING
COUNTRIES
. WE ARE A PARTY TO THE INTERNATIONAL UNDERTAKING
ON WORLD FOOD SECURITY WHICH SETS OUT OBJECTIVES
AND GUIDELINES FOR ACHIEVING A BETTER MEASURE OF
SECURITY OF FOOD SUPPLIES
. ACTION IS REQUIRED BOTH BY DEVELOPED COUNTRIES AND
DEVELOPING COUNTRIES WITH FOOD PRODUCTION SURPLUSES
TO ENSURE FOOD SECURITY
. AUSTRALIA LOOKS TO THE SUCCESSFUL CONCLUSION
OF A NEW INTERNATIONAL WHEAT AGREEMENT WITH
RESERVE STOCK PROVISIONS AND INCREASED COM-
MITMENTS TO THE FOOD AID CONVENTION AS A MEANS
OF SECURING A MEASURE OF WORLD FOOD SECURITY
. CONTRIBUTION BY ALL COUNTRIES WITH A CAPACITY
TO ASSIST TO EMERGENCY RESERVES, PRICE
STABILISATION AND FOOD AID SCHEMES IS REQUIRED
. SPECIAL ACTION IS REQUESTED FOR THE LEAST DEVELOPED
"CHRONIC" COUNTRIES
. DEVELOPED COUNTRIES MUST GRANT, AND OTHER
DEVELOPING COUNTRIES MUST AGREE TO, SPECIAL
MEASURES ACROSS THE RANGE OF KEY NORTH/SOUTH
ISSUES - ODA, INDUSTRIALISATION, TRADE FINANCE,
FOOD SECURITY
. ACTION MUST INCLUDE ASSISTANCE FROM DEVELOPING
COUNTRIES, ESPECIALLY THOSE WHICH ARE
RELATIVELY ADVANCED. INACTION COULD LEAD TO
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GROWING POLITICAL INSTABILITY AND WOULD
CONSTITUTE A SERIOUS BREACH OF COMMITMENTS.
TRADE

INTRODUCTION

. THE RECENT SLUGGISH GROWTH IN THE OECD ECONOMIES HAS
HAD TWO IMPORTANT CONSEQUENCES
. PRESSURES TO SLOW DOWN THE RATE OF RESTRUCTURING
OF THE INDUSTRIALISED ECONOMIES THROUGH
PROTECTIONIST POLICIES.
. TENDENCIES TO EXCLUDE DEVELOPING COUNTRIES FROM
GLOBAL ECONOMIC INTERACTION.
PROTECTIONISM

. TWO KEY FEATURES
. NOT LIMITED TO CHANGES IN TARIFF LEVELS. CHANGES
IN EXCHANGE RATES AND THE USE OF NTB'S ARE ALSO
IMPORTANT.
. WHILST THE OVERALL LEVEL OF TRADE BARRIERS MAY
NOT BE RISING THERE HAVE BEEN SOME DRASTIC
INCREASES IN INDUSTRY-SPECIFIC TRADE BARRIERS.
. DESIGNED TO SLOW DOWN ADJUSTMENT TO LOW
COST IMPORTS WHICH IS INEVITABLE
. AGRICULTURE HAS BEEN IN OBVIOUS VICTIM.
. THE C.A.P.

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C O N F I D E N T I A L SECTION 5 OF 6 CANBERRA 4297

LIMDIS

PARIS FOR USOECD; BRUSSELS FOR USEC; GENEVA FOR MTN

DEVELOPING COUNTRIES
. IF THE INDUSTRIALISED COUNTRIES DON'T MAINTAIN AN
OPEN AND STABLE TRADING SYSTEM DEVELOPING COUNTRIES
ALSO SUFFER.
. THEY HAVE SMALL DOMESTIC MARKETS AND SO
RELY ON EXPORTS.
. PROTECTIONIST PRESSURES IN DEVELOPED COUNTRIES MAY
BE CRITICAL TO THE FUTURE ECONOMIC AND POLITICAL
STABILITY OF MANY LDCS
. HISTORICALLY HIGH GROWTH RATES HAVE GENERATED
INGRAINED EXPECTATIONS IN DEVELOPING COUNTRIES (IN BOTH

THE SOCIAL AND ECONOMIC STRUCTURE)..
. MANY DEVELOPING COUNTRIES DEPEND ON THE EXPORTS OF
ONE OR TWO COMMODITIES
. STABILITY OF COMMODITY TRADE IS THEREFORE
CRUCIAL TO THEM.
. WE MUST RECOGNISE THE EFFECT OF A SLOW-DOWN IN THE
DEVELOPED COUNTRIES ON THE ECONOMIC AND POLITICAL
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STABILITY OF THE THIRD WORLD.
THE MULTILATERAL TRADE NEGOTIATIONS
BACKGROUND
. THE MTN WAS INAUGURATED IN SEPTEMBER 1973 WITH THE
TOKYO DECLARATION WHICH SPECIFIED THE FOLLOWING
OBJECTIVES:
. EXPANSION AND LIBERALISATION OF TRADE THROUGH THE REDUCTION
OF TARIFF AND NON-TARIFF BARRIERS TO TRADE IN AGRICULTURAL
AND INDUSTRIAL GOODS.
. RE-EXAMINATION OF THE RULES AND INTER-NATIONAL
FRAMEWORK FOR TRADE.
. PROVISION OF SPECIAL AND DIFFERENTIAL TREATMENT FOR
DEVELOPING COUNTRIES WHERE APPROPRIATE.
. SINCE THAT TIME THE MTN HAS BEEN PLAGUED BY DELAYS,
DUE TO THE UNITED STATES PRESIDENTIAL ELECTIONS AND
PROCEDURAL DISPUTES BETWEEN THE EEC AND USA REGARDING
AGRICULTURE.
. IN EARLY 1977 THE LONDON ECONOMIC SUMMIT - AT THE
INSTIGATION OF PRESIDENT CARTER - DECLARED THAT: "THE
MTN MUST BE PURSUED VIGOROUSLY. THE CONTINUING
ECONOMIC DIFFICULTIES MAKE IT EVEN MORE ESSENTIAL TO
ACHIEVE THE OBJECTIVES OF THE TOKYO DECLARATION AND
TO NEGOTIATE A COMPREHENSIVE SET OF AGREEMENTS TO
THE MAXIMUM BENEFIT OF ALL. TOWARDS THIS END WE WILL
SEEK THIS YEAR (1977) TO ACHIEVE SUBSTANTIVE PROGRESS."
. TO DATE NEGOTIATIONS HAVE FOCUSED ON A 40 PER
CENT CUT IN TARIFFS BY THE INDUSTRIALISED
COUNTRIES (USA, EEC, JAPAN, ETC) PHASED OVER
8 YEARS. HOWEVER, AVERAGE TARIFFS ON
INDUSTRIAL PRODUCTS IN THESE AREAS ARE ABOUT 10 PER CENT.
THE CUTS TO APPLY FROM 1980 COULD ON MOST ITEMS AVERAGE AS
LITTLE AS 0.5 PER CENT PER ANNUM OVER 8 YEARS. THESE CUTS
COULD BE CANCELLED OUT BY MOVEMENTS IN CURRENCY RATES.
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THE TRADE COVERAGE IS LESS THAN ONE-FIFTH OF WORLD TRADE. THE
TARIFF CUTTING FORMULAE PROCESS, THEREFORE, IS HARDLY LIKELY

TO GENERATE ANY RESURGENCE IN WORLD TRADE.

. THERE HAS BEEN ALMOST NO PROGRESS ON AGRICULTURE OR IN CONSIDERING THE CIRCUMSTANCES WHERE SPECIAL TREATMENT FOR THE DEVELOPING COUNTRIES- MIGHT BE APPROPRIATE. EVEN THOUGH THE UNITED STATES HAS EMPHASISED THAT "A SUBSTANTIAL RESULT ON AGRICULTURE MUST BE ACHIEVED" THE NEGOTIATING FRAMEWORK IMPOSED ON OTHER COUNTRIES BY THE US EEC ACCORD VIRTUALLY PRECLUDES THIS.

. THE PRESENT US TIMETABLE IS FOR AN OUTLINE PACKAGE TO BE NEGOTIATED BY JULY 1978. THE PROPOSED PACKAGE, IF ACHIEVABLE, SEEMS LIKELY TO BE OF LITTLE BENEFIT TO AGRICULTURAL EXPORTERS AND DEVELOPING COUNTRIES. CURRENT PROSPECTS.

. TO ACHIEVE REAL MOMENTUM IN TRADE GROWTH NEW POLITICAL DECISIONS ARE NEEDED. DECISIONS TO GIVE THE NEGOTIATIONS A NEW HIGH LEVEL EMPHASIS, TO WIDEN THE SCOPE OF MTN TO BROADEN COVERAGE TO AGRICULTURE AND TO BETTER COVER THE NEEDS OF THE DEVELOPING COUNTRIES. CURRENTLY THE MTN FORMULA REDUCTION APPLIES TO ONLY 5 PERCENT OF AUSTRALIA'S EXPORTS COMPARED WITH 40 PERCENT OF JAPAN, EEC, USA.

. UNLESS ALL MAJOR PARTICIPANTS REASSESS THEIR MTN MANDATES AND TAKE A WIDER AND MORE POSITIVE STANCE, THE LIKELY MTN OUTCOME COULD WELL BE THE NEGOTIATION OF A LOWEST COMMON DENOMINATOR PACKAGE WHICH MEETS THE INTERESTS OF THE USA, EEC AND JAPAN. SUCH AN OUTCOME WOULD FALL FAR SHORT OF THE POSITIVE ASPIRATIONS OF THE TOKYO DECLARATION AND WHILE IT COULD BE USEFUL IN COUNTERING PROTECTIONIST TRENDS IN THE MAJOR INDUSTRIALISED COUNTRIES, IT WOULD BE MOST UNLIKELY TO LEAD TO ANY MAJOR GROWTH IN WORLD TRADE.

. MEANS OF ENERGISING THE MTN WILL ALMOST CERTAINLY BE CONSIDERED AT KINGSTON AND SUBSEQUENTLY AT THE BONN
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SUMMIT. AUSTRALIA SHOULD SEEK AN AGREEMENT FROM PARTICIPANTS TO

. REAFFIRM A FULL COMMITMENT TO ALL OF THE OBJECTIVES OF THE TOKYO DECLARATION.

. REQUEST GOVERNMENTS (PARTICULARLY THE EEC) TO REASSESS THEIR MTN MANDATES NOW TO ENSURE

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ACTION EA-06

INFO OCT-01 SS-14 ISO-00 NSC-05 PM-03 SP-02 INR-05
CIAE-00 NSAE-00 DODE-00 EB-04 TRSE-00 OMB-01 IO-06
DOE-15 SOE-02 /064 W
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R 020826Z JUN 78
FM AMEMBASSY CANBERRA
TO SECSTATE WASHDC 3424
INFO AMEMBASSY PARIS
AMEMBASSY BRUSSELS
USMISSION GENEVA

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LIMDIS

PARIS FOR USOECD; BRUSSELS FOR USEC; GENEVA FOR MTN

THEIR POSITIVE PARTICIPATION IN ALL FACETS OF THE NEGOTIATIONS.
THIS WOULD REQUIRE A COMMITMENT BY AUSTRALIA TO MAKE THE SAME
DECISION.

. AUSTRALIA SHOULD SEEK CO-OPERATION

(I) TO SUPPORT POSITIVE RESULTS IN GATT GRAINS/DAIRY/MEAT GROUPS

(II) IN OPPOSING MOVES BY THE EEC TO HAVE A SELECTIVE AND DIS-
CRIMINATORY APPROACH TO IMPORT CONTROLS INSERTED IN ANY NEW
SAFEGUARDS CODE

(III) IN SUPPORT OF AUSTRALIA'S PROPOSED CODE OF CONDUCT ON
EXPORT SUBSIDIES FOR AGRICULTURE.

EEC AND WORLD TRADE

. IN A SITUATION WHERE PROTECTIONISM CONSTITUTES A REAL THREAT
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TO GLOBAL ECONOMIC SECURITY THE EEC IS THE MOST INWARD LOOKING
OF ALL THE MAJOR TRADING ENTITIES

. IT HAS ADOPTED A LOWEST COMMON DENOMINATOR APPROACH TO THE
MTN BASING ITS NEGOTIATING POSITION ON THE REQUIREMENTS OF ITS
ECONOMICALLY WEAKEST MEMBER

. IT HAS ATTEMPTED TO HALT RESTRUCTURING OF ITS ECONOMIES AT THE EXPENSE OF TWO IMPORTANT GROUPS

. AGRICULTURAL EXPORTERS

. DEVELOPING COUNTRIES

. IT HAS TRIED TO INTRODUCE NEW MEASURES TO EXCLUDE THE PRODUCTS OF EFFICIENT DEVELOPING COUNTRIES

. IT IS THEREFORE IMPORTANT THAT ALL COUNTRIES IMPRESS ON THE EEC THE NEED TO TAKE AN APPROPRIATE SHARE OF THE BURDEN BRINGING ABOUT A RESURGENCE IN GLOBAL ECONOMIC ACTIVITY.

. A FAILURE BY THE EEC TO ADOPT A POSITIVE APPROACH IN MULTILATERAL NEGOTIATIONS WILL MEAN THAT COUNTRIES WHICH (LIKE AUSTRALIA) HAVE BEEN PARTICULARLY DISADVANTAGED MAY LOOK TO SELF-INTERESTED MEASURES OUTSIDE THE MTN

. WITH CONSEQUENT RISK OF A FREE FOR ALL.

COMMODITIES AND THE COMMON FUND

. AUSTRALIA'S NEW POSITION ON COMMODITIES AND THE COMMON FUND HAS BEEN WELL RECEIVED BY DEVELOPING COUNTRIES AND HAS GENERATED MORE VIGOROUS ANALYSIS WITHIN GROUP B.

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. THE COMMONWEALTH MINISTERIAL MEETING REVEALED MORE FLEXIBILITY ON THE PART OF MEMBERS.

. THE JAPANESE GAVE THE NEW APPROACH A GOOD HEARING.

. IN THE OECD WE HAVE BEEN SUCCESSFUL INTEGRATING THE DISCUSSION WOT SOME SUPPORT FROM THE NORDICS, NETHERLANDS, BELGIUM AND THE EEC COMMISSION.

. FRANCE HAS ALSO INDICATED AN AFFINITY WITH OUR POSITION.

. THE UAUSTRALIAN APPROACH IS MORE PRACTICABLE AND NEGOTIABLE THAN THAT OF THE MAJOR INDUSTRIALISED COUNTRIES BECAUSE IT AIMS TO STABILISE COMMODITY TRADE OVER A WIDE RANGE OF PRODUCTS. THIS RECOGNISES

. THAT THE DOMINATION WHICH INDUSTRIALISED COUNTRIES HAD OVER COMMODITY TRADE THROUGH INFLUENCE OVER SUPPLIES AND PRICES (FOREIGN INVESTMENT LINKS) IS BREAKING DOWN AND COMMODITY SUPPLIES ARE CONSEQUENTLY LESS SECURE.

. INSTABILITY IN COMMODITY PRICES CAN HAVE AN INFLATIONARY
IMPACT ON DEVELOPED ECONOMIES (RATCHET EFFECT
THROUGH WAGE RESPONSE)

. MANY DEVELOPING COUNTRIES ARE DEPENDENT ON EXPORTS OF ONE OR
TWO COMMODITIES AND ARE THEREFORE VULNERABLE TO LARGE FLUCTUATIONS
IN COMMODITY PRICES.

. OUR OBJECTIVES THROUGH THE IPC AND THE COMMON FUND ARE
TO HELP TO STABILIZE COMMODITY PRICES AROUND A LONG TERM TREND.

. THE APPROACH IS A COMPREHENSIVE SOLUTION BASED ON DIFFERENT
BUT COMPLEMENTARY TREATMENT FOR DIFFERENT COMMODITIES. THE THREE
COMPONENTS ARE
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(I) ACCELERATED NEGOTIATIONS OF PRODUCER/CONSUMER STABILISATION
ARRANGEMENTS OF COMMODITIES WHICH APPEAR TO OFFER EARLY PROSPECTS
OF SUCCESS E.G. RUBBER AND TEA.

(II) A SYSTEM OF NATIONALLY HELD STOCKS OF CERTAIN COMMODITIES
INTERNATIONALLY COORDINATED THROUGH A COMMODITY ARRANGEMENT E.G.

. DEVELOPMENT OF SUCH A SYSTEM COULD BE A "FIRST STEP" TOWARDS
MORE GLOBAL PRODUCER/CONSUMER ARRANGEMENTS

. SPECIAL PROVISIONS COULD BE DEVELOPED WHICH WOULD LARGELY
INSULATE THE POOREST, LEAST DEVELOPED COUNTRIES FROM HAVING TO
UNDERTAKE MAJOR PRODUCTION CUTS

. PROVISION FOR ASSISTING IN THE FINANCING OF SUCH STOCKS WOULD BE
DEVELOPED WITHIN THE COMMON FUND NEGOTIATIONS.

(III) IMPROVEMENTS IN EXISTING INTERNATIONAL COMMODITY AGREEMENTS
E.G.

. SUGAR: THERE IS A NEED FOR THE EEC TO ACCEDE TO ISA OR ACCEPT
COMPARABLE DISCIPLINES

. TIN: THE BUFFER STOCK PROVISIONS- ESPECIALLY THE PRESENT SYSTEM
OF VOLUNTARY CONTRIBUTIONS - SHOULD BE REASSESSED. END TEXT
ALSTON

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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC COOPERATION, BRIEFING MATERIALS
Control Number: n/a
Copy: SINGLE
Draft Date: 02 jun 1978
Decaption Date: 20 Mar 2014
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978CANBER04297
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D780232-0707
Format: TEL
From: CANBERRA
Handling Restrictions:
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t197806104/aaaadlgl.tel
Line Count: 920
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 8a6a147d-c288-dd11-92da-001cc4696bcc
Office: ACTION EA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: LIMDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 17
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: LIMDIS
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 28 apr 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2150161
Secure: OPEN
Status: NATIVE
Subject: ECONOMIC BRIEFING PAPER FOR PRIME MINISTER FRASER'S TRIP
TAGS: PEPR, EGEN, AS, OECD, MTN
To: STATE
Type: TE
vdkgvwkey: odhc://SAS/SAS.dbo.SAS_Docs/8a6a147d-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014